



GSA Administrator

May 30, 2003

The Honorable Susan M. Collins
Chairman, Committee on Governmental Affairs
United States Senate
Washington, DC 20510

Dear Madam Chairman:

Thank you for your letter of May 16 expressing your concerns regarding WorldCom's business practices and the steps the General Services Administration (GSA) has taken to protect the integrity of the Federal procurement system.

I requested a memorandum from my General Counsel, Raymond J. McKenna, detailing the steps GSA has taken to ensure that WorldCom has met its performance measures under existing contractual obligations, and that the interests of the Government and the public are protected. I have enclosed this memorandum as our response to the questions in your letter. We would be pleased to meet with you and your staff if further discussion is required.

I look forward to working with you as you look into this very important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen A. Perry".

Stephen A. Perry
Administrator

Enclosure



GSA Office of General Counsel

May 30, 2003

MEMORANDUM FOR

STEPHEN A. PERRY
ADMINISTRATOR (A)

FROM:

RAYMOND J. MCKENNA
GENERAL COUNSEL (L)

A handwritten signature in black ink, appearing to read "Raymond J. McKenna for".

SUBJECT:

Present Responsibility of MCI WorldCom

This memorandum responds to your request for information responsive to the letter dated May 16, 2003, from Senator Susan M. Collins, in which she expresses concern regarding WorldCom's business practices. Senator Collins asks GSA to explain what steps the agency has taken to protect the integrity of the Federal procurement system and to insure that MCI WorldCom is a presently responsible Federal contractor.

Senator Collins mentions possible consideration of suspending or debarring WorldCom from future Government business. As you know, suspension and debarment actions are taken pursuant to provisions of the Federal Acquisition Regulation (FAR), 48 CFR Subpart 9.4, Debarment, Suspension, and Ineligibility. In order for a Federal contractor to be suspended there must first be a showing of "adequate evidence" of infractions that affect the **present responsibility** of the firm or individual to conduct future business with the Government. Debarment requires an even higher standard of proof of a lack of present responsibility, or the existence of a conviction or civil judgment. Even where the standard of proof is met, both suspension or debarment actions must also be shown to be in the best interest of the Government and the best interest of the public. Neither suspension nor debarment shall be used for punitive purposes. In all cases, mitigating factors must be considered. These include the existence of remedial measures, degree of contractor cooperation, disciplinary and removal actions against wrongdoers, whether management recognizes the seriousness of the misconduct, and whether the contractor has instituted new control procedures and ethics training. The analysis of these factors proceeds on a case-by-case basis, respecting the unique circumstances of each situation, to determine the present responsibility of the contractor.

Based upon these regulations and available information, GSA has not determined that MCI WorldCom should be suspended or debarred. I should note that GSA has taken such action, based on appropriate findings, against former WorldCom officials, as explained later in this memorandum. Senator Collins should be assured that, with respect to the company, GSA will take appropriate action when and if warranted.

The following information is provided in response to specific questions raised by Senator Collins:

(1) What investigation has GSA undertaken into the present responsibility of WorldCom?

Immediately after news of financial improprieties emerged in June 2002, GSA intensified monitoring of MCI WorldCom's present responsibility. One aspect of our scrutiny has focused on GSA's FTS2001 contract, under which MCI WorldCom provides essential long distance telecommunications services to 75 Federal agencies in 66,000 Government locations across the nation. GSA monitors the performance of the MCI WorldCom network through a variety of means, including contract-required deliverables; monthly Director/Vice President level customer service meetings; monthly agency working group meetings; and bi-monthly senior executive meetings. At each of these forums, data on service availability, network reliability and provisioning are reviewed. These reviews are in addition to regularly scheduled agency-specific meetings.

The disclosure of MCI WorldCom's financial improprieties prompted GSA and MCI WorldCom to take aggressive steps to ensure that there was no deterioration of service. Specifically, starting on July 8, 2002 MCI WorldCom convened daily conference calls involving the MCI WorldCom Senior Vice President for Government Markets, his staff, the agency chief information officers, and senior GSA staff. Topics included the review of results for provisioning new services, network availability, and repair times for existing services. These conference calls also served as a forum for FTS2001 agency customers to ask questions and raise issues regarding performance. These calls continued on a daily basis until August 5, 2002 at which time the schedule was changed to a weekly schedule. Since November 2002, periodic monitoring reports have been available to interested agencies via e-mail. Throughout this period MCI WorldCom has performed as well or better than before the financial improprieties surfaced. No agencies have determined it to be necessary to move their service from MCI WorldCom during this period.

Examples of performance requirements exceeded by the contractor include network availability (the contract requires an availability standard of 99.8%; MCI WorldCom year to date has achieved a standard of better than 99.9%); and mean time to repair (the contract requires 4.0 Hours; MCI WorldCom year to date has reduced this to less than 3.1 hours). MCI WorldCom's intervals to install new services are significantly shorter than the FTS2001 program average. Although MCI WorldCom laid-off thousands of employees during its bankruptcy, the company's Government Markets organization that supports the FTS2001 contract remains largely untouched.

GSA has also focused more broadly on MCI WorldCom's corporate responsibility. We have been active in monitoring developments at the Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ), two agencies with authority to investigate, prosecute, and take punitive measures when warranted. GSA is working closely with the U.S. Attorneys handling the bankruptcy proceeding in New

York. We are in contact with the corporate monitor appointed in July 2002 by the United States District Court for the Southern District of New York, former SEC Chairman Richard Breeden. He serves as the eyes and ears of the court within the physical structure of the company. In speaking with him recently about MCI WorldCom's progress in implementing strengthened internal controls, he indicated MCI WorldCom has exhibited complete and total cooperation with all parties, and has been extraordinarily proactive in identifying and removing all wrongdoers. He described an unparalleled program of revamped internal controls with a primary emphasis on the highest ethical standards, from top to bottom. Mr. Breeden's account is consistent with our own experience regarding MCI WorldCom's level of cooperation.

MCI WorldCom is very cooperative in providing information to GSA about the status of developments including the implementation of internal controls and other remedial measures, as most recently outlined in the SEC settlement agreement. Importantly, we have requested and are awaiting the company's Special Investigative Committee Report (the McLucas Report) heretofore withheld by the DOJ, but now expected to be released in June (OGC has asked for an advanced copy of this report).

Further, GSA's Office of Inspector General (OIG) is reviewing this matter. OIG will be pleased to discuss this further with Senator Collins or her staff.

(2) What mechanisms has GSA put into place to ensure that WorldCom is fulfilling its current responsibilities as a Federal Government contractor?

As mentioned in response to Question 1, GSA continues to aggressively monitor MCI WorldCom's contract performance through a variety of mechanisms. To date, MCI WorldCom is meeting its current contractual responsibilities. As mentioned above, GSA continues to actively monitor related business and legal developments.

(3) Has MCI WorldCom agreed to any additional audit procedures that will allow GSA to effectively monitor its performance on Government contract?

am not aware of any additional audit procedures in place at this time.

(4) Has MCI WorldCom entered into any agreement, written or oral, with GSA regarding continued monitoring of MCI WorldCom?

MCI WorldCom has orally agreed to fully cooperate in GSA's review. MCI WorldCom has fully cooperated with the request of GSA and agency users that MCI WorldCom participate in performance reviews, and the company continues to demonstrate cooperation in fulfilling its contract responsibilities, as well as updating GSA with other new information.

(5) Please identify and provide copies of any written analysis and/or findings generated to date on MCI WorldCom's suitability to continue to receive Government contracts and/or its performance on current Government contracts.

Last fall GSA renewed the FTS2001 contract to cover the performance period from January 2003 through January 2004. In deciding to exercise the contract option, GSA found that MCI WorldCom's performance has been consistent with the terms of the contract. Attached are a copy of the Contracting Officer's Determination dated November 7, 2002, and a copy of a GSA News Release that summarizes the reasons for that decision.

Additionally, on November 12, 2002, GSA suspended two former WorldCom officials, Mr. Scott D. Sullivan, former WorldCom Chief Financial Officer, and Mr. David F. Myers, former Controller. Mr. Sullivan was indicted on seven criminal counts, including securities fraud, conspiracy to commit securities fraud and filing false statements with the SEC, and those charges are pending. Mr. Myers pled guilty to securities fraud, conspiracy to commit securities fraud and filing false statements with the SEC. GSA determined that these facts constituted adequate evidence of misconduct, indicating a lack of present responsibility to conduct business with the Federal Government. Copies of the notices of suspension are attached. Suspension of additional former officials may be considered.

Attachments

1. Contracting Officer's Determination, November 7, 2002
2. GSA News Release #9991, November 13, 2002
3. Notice of Suspension (Scott Sullivan)
4. Notice of Suspension (David Myers)

**DETERMINATION
AUTHORITY TO EXERCISE OPTION YEAR ONE
GSA FTS2001 CONTRACT # GS00T99NRD2002
MCI WorldCom Communications, Inc
MODIFICATION: PA109**

1. REFERENCES

- a. FAR Subpart 17.202, Use of Options
- b. FAR Subpart 17.207, Exercise of Options
- c. FAR Part 9, Contractor Qualifications

2. INTRODUCTION

The General Services Administration, Federal Technology Service, (GSA FTS), Willow Wood, Fairfax, VA intends to exercise the Option Year One for Contract Number GS00T99NRD2002 with contractor MCI WorldCom Communications Inc. (MCIW). There will be no additional dollars obligated with this option. The contract was awarded as a competitive procurement to the offerors whose proposals were most advantageous to the Government, taking into consideration cost/price and the technical, management, and past performance evaluations. As awarded on January 11, 1999, the initial contract term of four years ends on January 10, 2003. The extended term shall be an additional twelve (12) months (months 49 through 60) immediately following the expiration of the current term and will cover the period 11 January 2003 through 10 January 2004. The current contractor has successfully provided the first four basic years of service in an acceptable manner and it is anticipated that the contractor will perform responsibly for the proposed option year.

3. DESCRIPTION

MCIW will continue to provide all services, technological enhancements, service improvements, and new/emerging telecommunications offerings necessary for the Government to satisfy its worldwide telecommunications requirements for the FTS2001 Program. This also includes all telecommunications services, features, functions, and offerings that will be generally available as a part of the contractor's commercial and noncommercial offerings. MCIW currently provides long distance voice, data, Internet and video services to over 100 Federal agency customers via the FTS2001 Contract, with current revenues of approximately \$30 million per month. MCIW currently provides over 50% of the total long distance business volume supplied via FTS contracts. The MCIW FTS2001 Contract currently serves over 66 thousand Federal agency locations around the world and serves over one million Federal phone numbers. MCIW FTS2001 customers include many of the Government's largest agency users, including the Department of Defense, Social Security Administration, Department of Justice, Department of Health and Services, Department of the Interior and many of the components of the proposed Department of Homeland Security.

4. WRITTEN NOTICE (FAR 17.207 (a))

Pursuant to FTS2001 Contract Section I.13, FAR Clause 52.217-09 Option to Extend the Term of the Contract (MAR 1989) (Variation FAR 52.217-09) and Contract Section H.1 Type and Term of Contract, preliminary notice of the Government's intention to renew the contract was conveyed to the contractor on 7 November, 2002, which is before the expiration of the current contract term. This satisfies the preliminary notice requirement of 60 calendar days before the expiration of the current contract term.

5. ECONOMIC PRICE ADJUSTMENT (FAR 17.207 (b))

This contract is a fixed price, indefinite delivery, indefinite quantity contract with a method of economic price adjustment and price redetermination, as described in Contract Section H.7 Price Management Mechanism, and H.9 Price Redetermination, respectively. The Price Management Mechanism (PMM) may be conducted every 12 months for the life of the contract and ensures that prices for FTS2001 services remain competitive with prices paid by other equivalent users of telecommunications services. The PMM compares the price of each of the telecommunications services purchased under FTS2001 with the price(s) paid by other large commercial and Government users. A PMM analysis of MCIW's FY02 prices was conducted and no contract pricing adjustments were necessary, as the MCIW FTS2001 Contract prices still remain competitive. Additionally, several MCIW proposed rate reduction modifications have been incorporated into its FTS2001 Contract in accordance with Contract Section H.8 Price Reductions.

6. FUNDING (FAR 17.207 (c) (1))

There is no dollar obligation with this action. Each ordering activity cites funds on its individual orders. Regarding Contract Section H.3 Minimum Revenue Guarantee (MRG) and Maximum Contract Limitation, the total amount paid under this contract has not exceeded the maximum contract ceiling and the MRG has been met.

7. EXISTING GOVERNMENT NEED (FAR 17.207 (c)(2))

Exercise of the option fulfills an existing need of the Government by providing telecommunications services that are necessary for normal operation and support of existing Government missions. Without a renewal of these telecommunication services many mission-critical Government functions would be jeopardized.

8. MOST ADVANTAGEOUS METHOD OF MEETING THE GOVERNMENT'S NEED (FAR 17.207 (c)(3))

a. Exercise of the first option year of the FTS2001 Contract with MCIW is the most advantageous method of satisfying the Government's need for the required services, price and other factors considered. This determination is based on the rationale that the option is in the best interest of GSA's Federal agency customers and failure to exercise the option could lead to a disruption of telecommunications services for those Federal agency users of the MCIW FTS2001 Contract. Failure to exercise the option would detrimentally impact telecommunications services to military, law enforcement and homeland security entities, as well as to other Federal agencies. For example, long distance voice service to the Pentagon, the FBI's Trilogy data network, the National Weather Service's Weather Net, the Social Security Administration's national voice and data networks and the Center for Medicare Service's Medicare/Medicaid Hotline could be jeopardized.

b. Elimination of service by MCIW would require the Government to transition services to other long distance telecommunications providers. The previous transition to FTS2001, which started in 1999 (after a year of planning), took over two years and cost GSA approximately \$90 million. User agencies also had multi-million dollar expenses involved in transitioning. A decision not to exercise the first option year with MCIW would require GSA and the agencies to reallocate funds to pay for a transition and could divert already scarce Government resources to developing and implementing a transition plan. To transition services away from MCIW might take another two years, and could result in some Federal customers experiencing unacceptable disruptions in service. Additionally, the current FTS2001 Contracts are due to expire in 2007 and those same customers would have to plan, pay for and implement a possible second transition shortly after completing the transition from MCIW to either Sprint or AT&T.

c. GSA recognizes that the Federal government is one of WorldCom's largest and most visible customers and therefore, a decision to transition off the MCIW FTS2001 Contract could have an unfavorable impact on WorldCom's ability to emerge from bankruptcy as a viable carrier. Such an action could lead to service disruption not only to FTS2001 customers, but also to all of WorldCom's 20 million customers, including the Federal Aviation Administration Air Traffic control system, the Department of Defense's Defense Research and Engineering Network (DREN) and services to the legislative branch of the Federal government.

9. SYNOPSIS CONSIDERATIONS (FAR 17.207 (c)(4))

Pursuant to FAR Subpart 5.202 (a)(11), synopsis is not required because the contract option will be exercised under the terms of an existing contract. The option was previously synopsized in sufficient detail to comply with the requirements of FAR Subpart 5.207, Preparation and Transmittal of Synopses with respect to the current contract action.

10. ANALYSIS OF PRICE AND OTHER FACTORS (FAR 17.207 (d)(2))

The prices for the option period from January 11, 2003 to January 10, 2004 were evaluated by using the 12-month period from January through December 2003, since the ACE pricing tool runs on a monthly basis. The prices compared were those for the two FTS2001 contractors (MCIW and Sprint), and the one MAA contractor with a Crossover modification for long-distance services, AT&T. On an overall basis, MCIW's prices are lower than those of the other two major long distance contractors. Therefore, the exercise of the option is the most advantageous course of action, price and other factors considered.

11. CONTINUITY OF OPERATIONS (FAR 17.207 (e))

The Government has a justified need for continuation of these telecommunication services beyond the expiration of the current contract term. The Government could not sustain a lapse in service without an unfavorable impact on numerous Government agencies. If FTS were to transition business away from the MCIW FTS2001 Contract to the current Sprint or AT&T long distance contracts, customers could pay more for similar services due to higher contract prices. In fact, many of the services and features currently being provided by MCIW could not be immediately provided under either of the current Sprint or AT&T long-distance contracts. These services and features, currently exclusive to MCIW, have not been incorporated into the Sprint or AT&T contracts. Currently available only on the MCIW FTS2001 Contract are several Internet capabilities, selected Frame Relay and ATM data features and speeds, certain Audio Conferencing features, Toll-Free voice service features, several services to foreign countries, and a variety of customer interface features. These services and features are used by many Federal agencies.

12. CONTRACTOR RESPONSIBILITY (FAR 9.104-1 and 9.4)

a. MCIW was determined responsible at the time of the award of the basic contract on January 11, 1999, and has performed acceptably during the first three years and ten months of the contract. MCIW's performance has been consistent with the terms of the contract and has met agency requirements. FTS anticipates that the contractor will perform responsibly during the proposed option period.

b. MCIW's performance has remained acceptable even after the announcements early this year of financial difficulties, layoffs at MCIW's parent company, WorldCom, and the Chapter 11 bankruptcy announcement by WorldCom. Very few of the layoffs have directly impacted the MCIW government business organization. MCIW has continuously upgraded its service to Federal agencies by executing 107 contract modifications to date, many providing exclusive and specialized telecommunication services. Even after the WorldCom bankruptcy filing, MCIW continues to invest in service upgrades and is currently developing new contract modifications. MCIW also meets regularly with GSA and agency customers to discuss service issues and continues to make improvements to its service offerings. Based on the above information, MCIW's performance is satisfactory.

c. On July 21, 2002, MCIW's parent company, WorldCom filed for Chapter 11 bankruptcy. On July 22, 2002, the Bankruptcy Court approved WorldCom's motions and approved \$750 million dollars in interim financing. On October 15, 2002, the Bankruptcy Court entered a final order approving a \$1.1 billion debtor-in-possession financing package with a maturity date of the earlier of July 23, 2004 or the effective date of reorganization. It is WorldCom's position that this financing package will provide sufficient operating cash flow during the reorganization process. WorldCom's period of reorganization is expected to last through the second quarter of 2003 with WorldCom's senior management actively engaged in developing a business plan that will provide the foundation for the company's reorganization. With the approval of the new financing package, it appears that WorldCom and MCIW will have adequate financial resources to perform the contract through the first option year. WorldCom has stated that it does not expect the bankruptcy to impact service to any of its 20 million customers. Jerry Edgerton, MCIW's vice-president for the government market sector, has given similar assurances to GSA's management and its FTS2001 Federal Government customers. GSA is working closely with the Bankruptcy Court to insure that FTS contract interests are being taken into account and are not impaired.

d. WorldCom's bankruptcy appears to be the result of a general turndown in the telecommunications market sector, as well as unlawful accounting activity by former senior executives at WorldCom. These senior executives have since been replaced, and the current leadership at WorldCom has committed to work towards correcting accounting irregularities and restoring WorldCom to a sound financial position. While the actions of the former employees were egregious, they did not

involve or impact MCIW's provision of network communications services. WorldCom is cooperating with both the Securities and Exchange Commission (SEC) and the Department of Justice in their investigations of WorldCom's accounting irregularities. GSA is monitoring these investigations and is in contact with the appropriate Federal officials responsible for conducting the investigations.

e. The accounting issues of WorldCom were detected by an internal audit and were brought to the attention of company executives. On June 21, 2002, WorldCom executives dismissed the Chief Financial Officer, Mr. Sullivan, and forced the resignation of the Controller, Mr. Myers. On June 25, 2002, WorldCom disclosed the improper accounting conduct to the SEC and the U.S. Attorney. The questionable actions were apparently an attempt by Mr. Sullivan and Mr. Myers to make WorldCom appear more profitable to creditors and investors for approximately two years. These two former WorldCom employees were charged with conspiracy to commit securities fraud, securities fraud, and submission of false financial statements for allegedly manipulating the corporation's books. Mr. Myers pled guilty to participating in a scheme of fraud and Mr. Sullivan is awaiting trial.

f. Since the accounting irregularities were discovered, WorldCom executives have taken a number of steps to insure that such actions will not be repeated. WorldCom has strengthened the internal audit function that discovered the accounting irregularities, removed several accounting directors, and replaced its outside auditor, Arthur Andersen. Additionally, WorldCom has added independent directors to its Board of Directors, created a new Ethics Office, established a new ethics hotline, and revised its Code of Ethics. GSA personnel have met with senior WorldCom executives and received assurances that none of WorldCom's accounting issues arose in the performance of a Government contract. The company's Federal government contract business remains organizationally separate and distinct from the corporate accounting functions in which the accounting irregularities occurred. Additionally, WorldCom's Federal government sales management will continue to report along separate organizational and functional lines from the accounting function, joining only at the Chief Executive Office level. WorldCom has informed GSA that the company's Government Markets Group will receive regular briefings on ethics obligations. Based on the information provided by WorldCom, organizational, accounting and operational controls are in place to insure that the accounting issues under investigation will not reoccur during the option year extension.

g. While WorldCom is under civil and criminal investigations, to the best of my knowledge no officials of MCIW, the FTS2001 contractor and a WorldCom subsidiary, are under investigation or have been indicted. At this time, none of the alleged illegal actions taken by the former WorldCom officials impacted the contract performance of MCIW or impacted the service charges invoiced to the Government users of the FTS2001 Contract. In direct dealings with MCIW representatives regarding the FTS2001 Contract, FTS has not detected any unethical or unlawful behavior. Considering the above information and in the absence of additional

evidence, it appears that WorldCom's subsidiary, MCIW, possesses a satisfactory record of integrity and business ethics.

h. The "Excluded Parties Listing System" (EPLS), web site: <http://epls.arnet.gov/> was reviewed and neither WorldCom nor MCIW appear in the EPLS system. GSA has recommended that two former employees of WorldCom, Mr. Sullivan and Mr. Myers, be suspended from doing business with the Federal government. The suspension of Mr. Sullivan and Mr. Myers was not premised upon known deficiencies or improprieties attached to their performance of the FTS2001 Contract or other Government contracts, but rather their behavior and business practices in performance of their duties as agents of WorldCom.

i. There is limited financial risk on the Government's part in exercising the first option year extension. Ninety-six percent of an average MCIW FTS2001 bill is for services paid on a monthly basis, after services are provided. The balance of the bill is for one-time expenses, primarily for installation activities and for terminating equipment. FTS has already taken steps to mitigate exposure to unresolved disputed charges.

13. DETERMINATION (FAR 17.207(f)) and FAR Part 6

a. The requirements of FAR Subpart 6.1, Full and Open Competition are satisfied because the option was evaluated as part of the initial competition and will be exercised based on the terms of the basic contract. The original contract specifically informed offerors that award would be made to the offerors whose proposals are most advantageous to the Government, taking into consideration the base and option years. The contract contains economic price adjustment and price redetermination mechanisms.

b. Based on the considerations outlined in this document, I determine it is proper to exercise the MCIW FTS2001 Contract option year one, as described in paragraph 2 of this determination. This is the most advantageous method of satisfying an existing Government need, price and other factors considered. It is in the Government's best interest and in compliance with applicable regulations, including FAR 17.207, Exercise of Options, and contract terms and conditions. GSA understands the criticality of WorldCom and MCIW's financial situation, but believes the risks to the Government in continuing service for the one-year period of this option are minimal and are greatly outweighed by the benefits to the Government. GSA will actively monitor the performance and financial status of both WorldCom and MCIW during the twelve months of the option period.

14. AUTHORITY (FAR 17.207 (g))

The authority for exercise of the option is pursuant to FTS2001 Contract Section I.13 52.217-09 Option to Extend the Term of the Contract (MAR 1989) (Variation FAR 52.217-09) and Contract Section H.1 Type and Term of Contract.



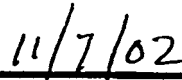
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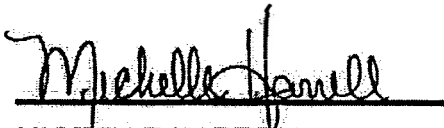
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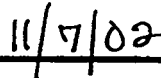
JOSEPH PESEK
Director, Comprehensive
Telecommunications
Acquisitions Center (TQC)



DATE



MICHELLE HARRELL
Senior Assistant General Counsel
Personal Property Division (LP)



DATE



News Release

U.S. General Services Administration

November 13, 2002
GSA # 9991

Contact: GSA Public Affairs, (202) 501-1231

GSA Picks up Option on MCI WorldCom Contract Agency Also Suspends Former WorldCom Officials

WASHINGTON, D.C. – The U.S. General Services Administration (GSA) today announced that it has exercised an additional one-year contract option with MCI WorldCom Communications Inc. (MCIW). As part of GSA's FTS2001 contract, MCIW, a WorldCom Inc. (WorldCom) subsidiary will continue to provide contract services necessary for the government to satisfy its telecommunications needs, including mission-critical requirements. Awarded on January 11, 1999, the initial contract term of four years has been renewed to cover the period of January 11, 2003, through January 10, 2004. Also today, GSA suspended former WorldCom officials Scott D. Sullivan and David F. Myers from conducting business with the federal government.

In deciding to exercise the contract option, GSA indicated that MCIW's performance has been consistent with the terms of the contract even after the announcements early this year of WorldCom's financial difficulties and its Chapter 11 bankruptcy filing. GSA is working closely with the Department of Justice, which is representing the government's interests in Bankruptcy Court to insure that FTS contract interests are being taken into account and are not impaired.

MCIW currently provides telecommunications services to some of the larger organizations in the federal government, including the Departments of Defense, Interior, Commerce (including the U.S. Weather Service hotline), Health and Human Services and Transportation. The contract also includes service to the Federal Aviation Administration, the Social Security Administration (including its hotline number) and the Nuclear Regulatory Commission.

GSA's decision to suspend former WorldCom Chief Financial Officer Sullivan and former Controller Myers is based on adequate evidence of criminal wrongdoing. Mr. Sullivan has been indicted on seven criminal counts, including securities fraud, conspiracy to commit securities fraud and filing false statements with the Securities and Exchange Commission (SEC), and those charges are pending. Mr. Myers pled guilty to securities fraud, conspiracy to commit securities fraud and filing false statements with the SEC. Under federal law, an indictment or a guilty plea for such offenses is adequate evidence of misconduct to support suspension of these individuals from future government business.

The names of the two individuals suspended are included in the *List of Parties Excluded From Federal Procurement and Non Procurement Programs*, which contains the names of entities and individuals debarred, suspended, proposed for debarment, or declared ineligible by any agency of the Federal Government. The suspensions, which will remain in effect for the duration of legal proceedings, are effective throughout the executive branch of the Federal Government and apply to all new business with the Federal government.

GSA is a centralized federal procurement and property management agency created by Congress to improve government efficiency and help federal agencies better serve the public. It acquires, on behalf of federal agencies, office space, equipment, telecommunications, information technology, supplies and services. GSA, comprised of 14,000 associates, provides services and solutions for the office

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operations of over 1 million federal workers located in 8,300 government -owned and leased buildings in 1,600 U.S. communities.

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GSA Office of Governmentwide Policy

November 12, 2002

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Scott D. Sullivan
6318 Woodbury Road
Boca Raton, Florida 33433-3606

Re: Notice of Suspension

Dear Mr. Sullivan:

You are hereby notified that the General Services Administration (GSA) has suspended you from federal government contracting and from directly or indirectly receiving the benefits of federal assistance programs. The suspension is based upon the indictment against you for conspiracy to commit securities fraud, filing false statements with the Securities and Exchange Commission (SEC) and securities fraud in connection with WorldCom, Inc.'s (WorldCom) \$7.2 billion financial misstatements. The suspension is initiated pursuant to the authority and the procedures of the Federal Acquisition Regulation (FAR) Subpart 9.4. Copies of FAR 9.4, and the GSA Acquisition Manual Subpart 509.4 are enclosed for your information (Attachment 1 and 2). This suspension shall remain in effect for the duration of the pendency of the Department of Justice's (DOJ) investigation and any ensuing legal proceeding.

Under FAR 9.401(a)(7), a contractor may be suspended upon "adequate evidence" of the "commission of any offense lacking business integrity or business honesty that seriously and directly affects the present responsibility of a contractor." Additionally under FAR 9.407-2 (a)(7) a contractor may be suspended upon "adequate evidence" of the "[c]ommission of making false statements." Further, pursuant to FAR 9.407-2 (b) an "[i]ndictment for any of the causes in paragraph (a) above constitutes adequate evidence for suspension."

Therefore, based on the foregoing, GSA has determined that the indictment mentioned above constitutes adequate evidence that you committed offenses lacking business integrity and honesty and that consequently you be suspended from entering into contracts with the federal government.

The facts and evidence supporting suspension are as follows:

1. On June 24, 2002, you, Scott D. Sullivan prepared a memorandum detailing your position on the transfers and met with members of the Audit Committee to discuss why the transfers were made. Financial statements for 2001 and the first quarter (1Q) of 2002 were prepared pursuant to your direction. Mr. Myers reported to you and assisted in the preparation of the financial statements. These statements, signed by you and then filed with the SEC were preceded by positive reports of WorldCom's financial earnings. Consequently, WorldCom's net income was thereby inflated in direct proportion to the amounts classified as capital expenditures. These false accounting figures were submitted to the SEC as an accurate representation of WorldCom's financial standing. Your signature appears on financial statements filed with the SEC from May 15, 2001 to April 25, 2002.
2. On June 25, 2002, you were terminated for masking corporate losses and misrepresenting corporate earnings. You submitted erroneous WorldCom financial reports throughout the four quarters of fiscal year 2001 and the first quarter of 2002. This was the same day that WorldCom announced that it discovered improper financial activities resulting in the erroneous accounting treatment of \$3.85 billion. Subsequent revelations of irregularities nearly doubled this amount, expanding WorldCom's anticipated financial restatements to \$7.2 billion.
3. On August 1, 2002 you were arrested in New York City and on August 28, 2002, you were indicted on one count of conspiracy to commit securities fraud, one count of securities fraud, and 5 counts of false filings with the SEC during the period of early 2001 through or around June 2002 and in connection with the improper financial activities of WorldCom.

It is my determination that the foregoing is adequate evidence of the commission of actions lacking business integrity and honesty. The causes mentioned above affect your present responsibility to be a government contractor or a participant in federal assistance programs and reflects negatively on the propriety of business dealings with you. On the basis of the administrative record before me, I find that

protection of the Government's business interests requires your immediate suspension.

The suspension is effective this date and has the following consequences during the period of suspension:

1. Your name, Scott D. Sullivan, will be published in the List of Parties Excluded From Federal Procurement and Nonprocurement Programs, a publication of the General Services Administration that contains the names of contractors debarred, suspended, proposed for debarment, or declared ineligible by any agency of the Federal Government. Suspension is effective throughout the executive branch of the Federal Government and applies to procurement and nonprocurement programs.
2. Offers will not be solicited from, contracts will not be awarded to, existing contracts will not be renewed or otherwise extended for, and subcontracts requiring Government approval will not be approved for you by any agency in the executive branch of the Federal Government, unless the head of the agency taking the contracting action or a designee states in writing the compelling reason for continued business dealings between you and the agency.
3. You may not conduct business with the Federal Government as an agent or representative of other contractors.
4. No Government contractor may award you a subcontract equal to or in excess of \$25,000 unless there is a compelling reason to do so and the contractor first notifies the contracting officer and further complies with the provisions of FAR 9.405-2(b).
5. No agency in the executive branch shall enter into, renew, or extend primary or lower-tier covered transactions in which you are either a participant or principal, unless the head of the agency grants an exception in writing.
6. You may not act as an agent or representative of other participants in federal assistance programs.

7. Your affiliation with or relationship with any organization doing business with the Government or receiving the benefits of federal assistance will be carefully examined to determine the impact of those ties on the responsibility of that organization to be a Government contractor or to receive federal assistance.

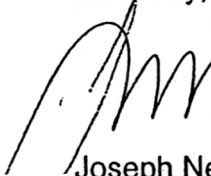
Within thirty calendar days after receipt of this notice, you or a representative on your behalf may submit, either in person or in writing, or both, information and argument in opposition to the suspension. If you designate a representative to respond on your behalf, please notify my counsel, in writing, of the identity of the representative. The designation should specifically state the names and addresses of all individuals or companies the designee has the authority to represent in this matter.

Your submission, if any, should include any specific information that may raise a genuine dispute over facts material to the suspension. If it is found that the information or argument submitted raises a genuine dispute over material facts, fact-finding may be conducted to determine the disputed facts. Facts set forth in the indictment, however, are not subject to dispute.

This suspension has been ordered on the basis of an administrative record. A copy of the record to date will be furnished to you or your representative upon request. Any written information submitted by you or your representative will become part of the administrative record.

Any communications regarding this matter should be directed to my counsel, Michael Ettner, at (202) 501-0727. Any written submissions should be addressed to Mr. Ettner and forwarded to him at General Services Administration, Office of General Counsel, 1800 F Street, NW, Washington, DC, 20405.

Sincerely,



Joseph Neurauter
Assistant Deputy Associate Administrator
For Acquisition Policy (MV)

Enclosure

cc: Irvin B. Nathan, Esq.



GSA Office of Governmentwide Policy

November 12, 2002

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

David F. Myers
116 Chapel Lane
Madison, MS 39110

Re: Notice of Suspension

Dear Mr. Myers:

You are hereby notified that the General Services Administration (GSA) has suspended you from federal government contracting and from directly or indirectly receiving the benefits of federal assistance programs. The suspension is based upon your guilty plea of conspiracy to commit securities fraud, securities fraud and filing false information with the Securities and Exchange Commission (SEC) on September 26, 2002 in connection with WorldCom, Inc.'s (WorldCom) \$7.2 billion financial misstatement. The suspension is initiated pursuant to the authority and the procedures of the Federal Acquisition Regulation (FAR) Subpart 9.4. Copies of FAR 9.4, and the GSA Acquisition Manual Subpart 509.4 are enclosed for your information (Attachment 1 and 2). This suspension shall remain in effect for the duration of the pendency of the completion of the Department of Justice (DOJ) or SEC investigations and any ensuing legal proceeding.

Under FAR 9.407-2(a)(7), a contractor may be suspended upon "adequate evidence" of the "commission of any offense lacking business integrity or business honesty that seriously and directly affects the present responsibility of a contractor." By pleading guilty to charges of securities fraud, conspiracy to commit securities fraud, you have admitted to knowingly and willfully conspiring to commit fraud in the connection with the purchase and sale of securities issued by WorldCom. Further under FAR 9.407-2 (a)(3) a contractor may be suspended

upon "adequate evidence" of the "[c]ommission of making false statements." By pleading guilty to making false statements to the SEC you have admitted to making materially false and misleading statements with respect to financial statements to the SEC and auditors. Therefore, based on the foregoing, GSA has determined that your actions constitute offenses lacking business integrity and honesty and that consequently you be suspended from entering into contracts with the federal government.

The facts and evidence supporting suspension are as follows:

1. At Scott Sullivan's direction, you, David Myers ordered WorldCom accounting employees to transfer normal operating line cost expenses to Property, Plant & Equipment ("PP&E") accounts where the expenses were treated as capital expenditures. By way of an email that was released by a congressional panel investigating WorldCom, you ordered Steven Brabbs, a WorldCom employee in the U.K., to stop questioning a curious accounting entry that turned a \$33 million charge into a profit.
2. On June 25, 2002, WorldCom announced that it discovered improper financial activities resulting in the erroneous accounting treatment of \$3.85 billion. Subsequent revelations of irregularities nearly doubled this amount, expanding WorldCom's anticipated financial restatements to \$7.2 billion.
3. On August 1, 2002 you were arrested in New York City. On September 25, 2002, criminal information in connection to the improper financial activities was filed against you and consequently on September 26, 2002 you plead guilty to conspiracy to commit securities fraud, securities fraud and filing false information with the SEC during the period of early 2001 through or around June 2002.

It is my determination that the foregoing is adequate evidence of the commission of actions lacking business integrity and honesty. The causes mentioned above affect your present responsibility to be a government contractor or a participant in federal assistance programs and reflects negatively on the propriety of business dealings with you. On the basis of the administrative record before me, I find that protection of the Government's business interests requires your immediate suspension.

The suspension is effective this date and has the following consequences during the period of suspension:

1. Your name, David F. Myers, will be published in the List of Parties Excluded From Federal Procurement and Nonprocurement Programs, a publication of the General Services Administration that

contains the names of contractors debarred, suspended, proposed for debarment, or declared ineligible by any agency of the Federal Government. Suspension is effective throughout the executive branch of the Federal Government and applies to procurement and nonprocurement programs.

2. Offers will not be solicited from, contracts will not be awarded to, existing contracts will not be renewed or otherwise extended for, and subcontracts requiring Government approval will not be approved for you by any agency in the executive branch of the Federal Government, unless the head of the agency taking the contracting action or a designee states in writing the compelling reason for continued business dealings between you and the agency.
3. You may not conduct business with the Federal Government as an agent or representative of other contractors.
4. No Government contractor may award you a subcontract equal to or in excess of \$25,000 unless there is a compelling reason to do so and the contractor first notifies the contracting officer and further complies with the provisions of FAR 9.405-2(b).
5. No agency in the executive branch shall enter into, renew, or extend primary or lower-tier covered transactions in which you are either a participant or principal, unless the head of the agency grants an exception in writing.
6. You may not act as an agent or representative of other participants in federal assistance programs.
7. Your affiliation with or relationship with any organization doing business with the Government or receiving the benefits of federal assistance will be carefully examined to determine the impact of those ties on the responsibility of that organization to be a Government contractor or to receive federal assistance.

Within thirty calendar days after receipt of this notice, you or a representative on your behalf may submit, either in person or in writing, or both, information and argument in opposition to the suspension. If you designate a representative to respond on your behalf, please notify my counsel, in writing, of the identity of the representative. The designation should specifically state the names and addresses of all individuals or companies the designee has the authority to represent in this matter.

Your submission, if any, should include any specific information that may raise a genuine dispute over facts material to the suspension. If it is found that the information or argument submitted raises a genuine dispute over material facts, fact-finding may be conducted to determine the disputed facts. Facts set forth in the guilty plea, however, are not subject to dispute.

This suspension has been ordered on the basis of an administrative record. A copy of the record to date will be furnished to you or your representative upon request. Any written information submitted by you or your representative will become part of the administrative record.

Any communications regarding this matter should be directed to my counsel, Mr. Michael Ettner, at (202) 501-0727. Any written submissions should be addressed to Mr. Ettner and forwarded to him at General Services Administration, Office of General Counsel, 1800 F Street, NW, Washington, DC, 20405.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Ettner", is written over a light blue rectangular background.

Enclosures

Cc: N. Richard Janis, Esq.